

IN THE MATTER OF THE SECURITIES LEGISLATION OF BRITISH COLUMBIA,
ALBERTA, SASKATCHEWAN, MANITOBA, ONTARIO, QUEBEC, NEW BRUNSWICK,
NOVA SCOTIA, NEWFOUNDLAND AND PRINCE EDWARD ISLAND

AND

IN THE MATTER OF THE MUTUAL RELIANCE REVIEW SYSTEM FOR EXEMPTIVE
RELIEF APPLICATIONS

AND

IN THE MATTER OF PHOTOCANNEL NETWORKS INC.

MRRS DECISION DOCUMENT

WHEREAS the local securities regulatory authority or regulator (the "Decision Maker") in each of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick, Nova Scotia, Newfoundland and Prince Edward Island (the "Jurisdictions") has received an application from PhotoChannel Networks Inc. ("PhotoChannel") for a decision under the securities legislation of the Jurisdictions (the "Legislation") that:

1. the requirements contained in the Legislation to be registered to trade in a security and to file and obtain a receipt for a preliminary prospectus and a prospectus (the "Registration and Prospectus Requirements") do not apply to:

(a) the distribution of the Call Option (defined below) by the limited partners (the "Partners") of PhotoChannel.Com Limited Partnership (the "Partnership") to PhotoChannel;

(b) the distribution of Exchanged Shares (defined below) as consideration or partial consideration for the acquisition of Units (defined below) of the Partnership on the exercise of the Call Option; or

(c) the distribution of Units by the Partners to PhotoChannel on the exercise of the Call Option by PhotoChannel;

(collectively, the "Non-Exempt Trades");

2. the take-over bid requirements in the Legislation (collectively the "Take-Over Bid Requirements") shall not apply to the acquisition of Units by PhotoChannel on the exercise of the Call Option; and

3. the first trade in Exchanged Shares acquired by the Partners on the exercise of the Call Option will be deemed to be a distribution or, where applicable, a primary distribution to the public under the Legislation of the Jurisdiction where such first trade takes place (the "Applicable Legislation") unless:

(a) PhotoChannel is a reporting issuer or the equivalent under the Applicable Legislation and was a reporting issuer or the equivalent under the Applicable Legislation at the time of the grant of the Call Option;

(b) either:

(i) at the date of the distribution of the Call Option, PhotoChannel (i) complies with BC Instrument 45-506 *In the Matter of the System for Shorter Hold Periods with an Annual Information Form* ("BCI 45-506") and, if the trade occurs in Alberta, Alberta Rule 45-501 *System for Shorter Hold Period for Issuers Filing an AIF* ("Rule 45-501"), except for the condition requiring PhotoChannel to distribute a security of its own issue and, (ii) signs certificates as required under BCI 45-506 and, if the trade occurs in Alberta, Rule 45-501, including that PhotoChannel is a "qualifying issuer" as defined in BCI 45-506 and Rule 45-501 (if applicable), provided that such certificates need not state that the Call Option is a security of PhotoChannel's own issue; and a 4 month period has elapsed from the date of the grant of the Call Option by the Partners; or

(ii) a 12 month period has elapsed from the date of the grant of the Call Option by the Partners

(c) if the seller of the securities is an insider or officer of PhotoChannel, the seller has no reasonable grounds to believe that PhotoChannel is in default of any requirement of the Applicable Legislation;

(d) except in Québec, the first trade is not from the holdings of a person or company who holds a sufficient number of the voting rights attached to all outstanding voting securities of the issuer to affect materially the control of the issuer or each person or company in a combination of persons or companies, acting in concert by virtue of an agreement, arrangement, commitment or understanding, which holds in total a sufficient number of the voting rights attached to all outstanding voting securities of an issuer to affect materially the control of the issuer, and, if a person or company or combination of persons or companies holds more than 20% of the voting rights attached to all outstanding voting securities of the issuer, the person or company or combination of persons or companies is deemed, in the absence of evidence to the contrary, to hold a sufficient number of the voting rights to affect materially the control of the issuer;

(e) no unusual effort is made to prepare the market or create a demand for the Exchanged Shares; and

(f) no extraordinary commission or other consideration is paid in respect of the trade;

(collectively, the "First Trade Conditions");

AND WHEREAS under the Mutual Reliance Review System for Exemptive Relief Applications (the "System"), the Executive Director of the British Columbia Securities Commission is the principal regulator for this application;

AND WHEREAS PhotoChannel has represented to the Decision Makers that:

1. PhotoChannel is a corporation incorporated under the laws of British Columbia and is in the business of providing online photo print services;
2. the authorized capital of PhotoChannel consists of an unlimited number of common shares, of which 28,773,537 common shares were issued and outstanding as at June 6, 2000;
3. PhotoChannel is a "reporting issuer" within the meaning of the Legislation in British Columbia, Ontario, and Quebec and is not in default of any of the reporting requirements under such Legislation;
4. the common shares of PhotoChannel are listed on the Montreal Exchange (the "ME");
5. the Partnership is a limited partnership created on January 31, 2000 under the laws of British Columbia and was formed to carry on an online photo print service business at an Internet website and to develop, manufacture and distribute related customized USB Card Readers;
6. PhotoChannel Management Inc. (the "General Partner"), an indirect wholly-owned subsidiary of PhotoChannel incorporated on January 25, 2000 under the laws of British Columbia, is the general partner of the Partnership;
7. the General Partner will not engage in any business other than acting as a general partner of the Partnership and the Board of Directors of the General Partner consists of five members, three appointed by PhotoChannel and two independents;
8. the Partnership is authorized to issue an unlimited number of limited partnership units ("Units"), of which one unit is issued and outstanding;
9. each Unit represents an equal interest in the Partnership, and is transferable only with the approval of the General Partner and in accordance with the Legislation;
10. the Partnership has been registered as a tax shelter investment under the Canada Income Tax Act and it is expected that Partners will be able to realize certain income tax deductions as a result of operating losses expected to be incurred by the Partnership during the development of the Partnership's e-commerce business;
11. the Partnership is not, and has no current intention to become, a reporting issuer or the equivalent under the Legislation in any of the Jurisdictions;

12. the Partnership intends to offer a maximum of 2,500,000 and a minimum of 750,000 Units (the "Offering") at a price of \$10.00 per Unit under exemptions from the Registration and Prospectus Requirements in each of the Jurisdictions, with the proceeds of the Offering to be used to develop and operate the Partnership's e-commerce business;

13. all subscribers for Units will purchase under the registration and prospectus exemptions contained in the Legislation applicable to purchases of securities with an aggregate acquisition cost of not less than \$25,000 in British Columbia and \$97,000 (or \$150,000) in the other Jurisdictions and, prior to the purchase of Units, will receive an offering memorandum containing prospectus-level disclosure regarding the Partnership and its business;

14. prior to the distribution of any Units in a Jurisdiction, PhotoChannel will become a reporting issuer, or the equivalent, under the Legislation of such Jurisdiction;

15. in connection with each subscription agreement for Units and as confirmed under the partnership agreement establishing the Partnership, each Partner will grant to PhotoChannel an option (the "Call Option") to purchase all, but not less than all, of the Units;

16. PhotoChannel will have the right, but not the obligation, to exercise the Call Option at any time during the period commencing on February 28, 2001 and ending April 30, 2001 (the "First Call Period") or during the period commencing on January 1, 2002 and ending February 28, 2002 (the "Second Call Period"); in the event PhotoChannel undergoes a "change of control" prior to the commencement of the First Call Period or after the expiry of the First Call Period but prior to the commencement of the Second Call Period, PhotoChannel may exercise the Call Option during the period commencing on the occurrence of such change of control and ending 45 days thereafter (an "Accelerated Call Period");

17. the purchase price payable for the Units on the exercise of the Call Option by PhotoChannel will be as follows:

(a) if the Call Option is exercised during the First Call Period, that number of freely-tradable common shares of PhotoChannel (the "Exchanged Shares") determined by dividing \$10.00 by the "current market price" of PhotoChannel's common shares, with "current market price" being calculated as 95% of the weighted average trading price of PhotoChannel's common shares on the ME for the 20 consecutive trading days ending five trading days before the date fixed for completion under the Call Option, subject to certain deemed maximum and minimum values;

(b) if the Call Option is exercised during the Second Call Period, the Exchanged Shares as calculated in clause 17(a) together with a call payment per Unit of the greater of (i) \$20.00 per Unit and (ii) eight times the earnings before interest, taxes, depreciation and amortization for the Partnership for the 12 month period ending December 31, 2001 divided by the number of Units then outstanding, less \$10.00; and

(c) if the Call Option is exercised during an Accelerated Call Period that occurs (i) prior to the commencement of the First Call Period, \$12.50 per Unit, or (ii) after the expiry of the First Call Period but before the commencement of the Second Call Period, \$20.00 per Unit;

18. until the Call Options are exercised or expire, PhotoChannel will send each Partner all disclosure material furnished to holders of PhotoChannel common shares, including but not limited to, copies of its annual report, interim financial statements and all proxy solicitation materials;

19. the registration and prospectus exemptions contained in the Legislation relating to trades in securities issued by "private issuers" or "private companies" cannot be relied on in relation to the grant of the Call Options by the Partners to PhotoChannel because in order to rely on such exemptions PhotoChannel would be required to undertake a significant review of the business and affairs of each subscriber for Units sufficient to satisfy itself that such subscriber in fact meets the definition of "private issuer" or "private company" under the Legislation;

20. the registration and prospectus exemptions contained in the Legislation relating to the issuance of securities on the exercise of a right to purchase or otherwise acquire securities in accordance with the terms and conditions of a previously issued security of the issuer are not available for the issuance of the Exchanged Shares to the Partners on the exercise of the Call Option because none of the Units or the Call Option are securities of PhotoChannel's own issue;

21. if the Partnership is not a reporting issuer or the equivalent under the Legislation and has not been a reporting issuer or the equivalent for the 12 months preceding the trade of the Units, the trade by the Partners of the Units to PhotoChannel on the exercise of the Call Option will be a distribution under the Legislation; and

22. in the event that PhotoChannel exercises the Call Option and offers to acquire at least 20% of the outstanding Units or where the number of Units to be acquired by PhotoChannel on the exercise of the Call Option when combined with the number of Units then held by PhotoChannel would represent at least 20% of the outstanding Units, such exercise of the Call Option would constitute a take-over bid for the Units for the purposes of the Legislation requiring compliance with the Take-Over Bid Requirements;

AND WHEREAS under the System this MRRS Decision Document evidences the decision of each Decision Maker (collectively, the "Decision")

AND WHEREAS each of the Decision Makers is satisfied that the test contained in the Legislation that provides the Decision Maker with the jurisdiction to make the decision has been met;

THE DECISION of the Decision Makers under the Legislation is that:

1. the Registration and Prospectus Requirements do not apply to the Non-Exempt Trades provided that, prior to the distribution of any Units in a Jurisdiction, PhotoChannel is a reporting issuer, or the equivalent, under the Legislation of such Jurisdiction;
2. the Take-Over Bid Requirements do not apply to the acquisition of Units by PhotoChannel on the exercise of the Call Option; and
3. the first trade in Exchanged Shares acquired by the Partners on the exercise of the Call Option will be deemed to be a distribution or, where applicable, a primary distribution to the public under the Applicable Legislation, unless the First Trade Conditions are satisfied;

PROVIDED THAT until the Call Options are exercised or expire, PhotoChannel will send to each Partner all disclosure material furnished to holders of PhotoChannel common shares, including but not limited to, copies of its annual report, interim financial statements and all proxy solicitation materials.

DATED January 24, 2001.

"Brenda Leong"
Brenda Leong
Director

Headnote

Mutual Reliance Review System for Exemptive Relief Applications - relief from registration and prospectus requirements in respect of distributions of securities by investors in connection with a private placement; relief from trades in securities if an issuer on exercise of various rights attached to securities; first trade relief for exchanged shares, subject to conditions, including a 4 month hold period and; relief from take-over bid requirements in respect of acquisitions of securities on exercise of various rights attached to the securities

Applicable British Columbia Provisions

Securities Act, R.S.B.C. 1996, c. 418, ss. 34(1)(a), 48, 61, 76, 105, 106, 107, 108, 109, 110, 114(c)